14 August 2025

Economic Comment

July inflation confirmed at 3.1% y/y

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GUS confirmed its preliminary estimate of a decline in CPI inflation in July to 3.1% y/y from 4.1% y/y in June. The decline was mainly due to the base effect in energy prices. Core inflation may have remained at 3.4% y/y in July or fallen to 3.3%, in our view. We expect inflation to hover between 2.7% and 3.1% y/y by the end of the year, with core inflation between 3.1% and 3.6% y/y, which should be enough for the Monetary Policy Council to continue with further, albeit cautious, interest rate cuts. In July, heat prices fell m/m, and the effect of the price cap removal may be reflected in the CPI in the following months and, in the event of large-scale increases, push up our inflation forecasts.

CPI inflation in July was confirmed by the statistical office at 3.1% y/y and 0.3% m/m. We still estimate that core inflation remained stable at 3.4% y/y in July, although after a review of the detailed data, a result of 3.3% y/y now seems almost equally likely to us. Goods price inflation fell to 1.9% y/y from 3.2% y/y in June, its lowest reading since June 2024. Services price inflation was 6.2% y/y, slightly lower than in June (6.3% y/y) but higher than in May (6.0% y/y). Our estimate of super-core inflation has remained in the range of 2.7-2.8% y/y for four months, and in July it was slightly lower than in June.

In June, CPI inflation was still at 4.1% y/y, which means that July is the first month in which it has remained within the inflation target range. We see no reason why it should rise above this range again this year or next. We expect inflation to hover between 2.7% and 3.1% y/y by the end of the year, with core inflation between 3.1% and 3.6% y/y. In the first months of 2026, CPI inflation should (temporarily) fall to the NBP target of 2.5% y/y or slightly below it, and core inflation should fall to around 3.0% y/y and then slightly below that level. Such an inflation scenario should lead to further interest rate cuts by the Monetary Policy Council, albeit cautious ones, i.e. 25 bp each and not at every meeting. We expect the next rate cut in September.

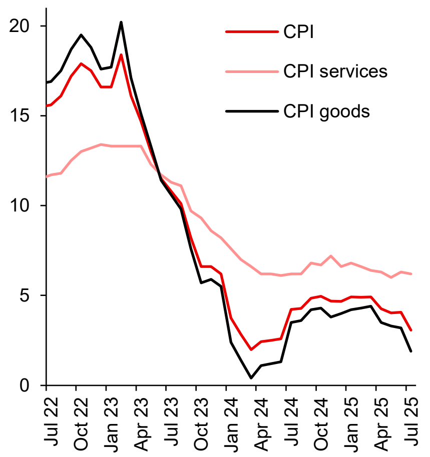
Core inflation similar in size as in June

In July, the forces affecting core inflation from individual components offset each other, and according to our estimates, it could remain in the range of 3.3-3.4% y/y for the fourth month running. Annual price declines in home furnishings and housekeeping deepened (in July they were 0.4% lower than a year ago, in June 0.1% lower) thanks to further reductions in large and small household appliances (-5.5% y/y compared to -4.5% y/y in June). The y/y price growth rate increased in the 'other goods and services' category (to 1.7% from 1.3% previously, in particular when it comes to personal hygiene goods and services - to 2.8% from 2.1%) and in education (to 8.6% from 8.0%, due to an unusual (in terms of both size and timing) increase of 4.1% m/m in fees related to higher education). What is more, the year-on-year decline in clothing and footwear prices slowed slightly, to -1.3% from -1.5%.

In the transport category, prices of passenger cars continued to fall (for the 22nd consecutive month), by 0.5% m/m in July, including used car prices down by 0.8% m/m. Flight ticket prices are behaving differently this year during the holiday season than in 2024 – after an increase of over 15% m/m in June, they fell by 3.4% in July, which reduced their annual growth rate to 7.3% from 11.2%.

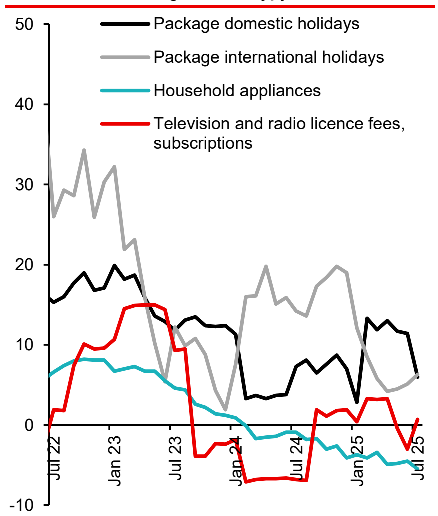
We were most surprised by the behaviour of the 'recreation and culture' category, which, with a monthly price increase of 2.3%, exceeded even the unusually high reading from a year ago (2.1% m/m in July 2024), despite the continuing decline in the prices of audio/video and IT equipment (by 2.2% m/m). However, services related to this category became more expensive: radio and television subscription fees went up by 3.8% m/m, and package holidays abroad by 11.2% m/m. Domestic tourism services fell by 0.2% m/m, but given the

CPI inflation, % y/y



Source: GUS, Santander

CPI, selected categories, % y/y



Source: GUS, Santander

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large increases a year earlier, this was enough to bring their annual price growth down to 6.0% from 11.4% in June.

Energy prices confusion

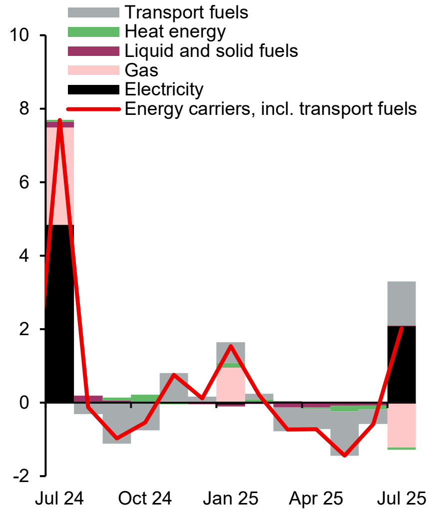
The annual growth rate of energy carrier prices decreased significantly due to a base effect, from 12.8% y/y in June to 2.4% y/y in July. While the significant y/y decline was easy to predict, the precise level at which this growth rate would land, as well as the change from June, were quite a mystery. It turned out that electricity and gas prices changed in line with our estimates, by +8.3% and -7.9% m/m, respectively. Electricity prices increased due to the reinstatement of the previously zeroed-out capacity fee, while cheaper gas is a result of the lower tariff price set by the energy market regulator. What raises concerns and uncertainty regarding CPI readings in the coming months is the 0.4% m/m decline in system heat prices recorded in July, despite the expiry of the mechanism capping prices for heat supply). According to information provided by housing cooperatives and heating plants across the country, due to the price cap removal, hot water and heating fees may increase by several to several dozen percent. However, according to information we obtained from GUS, these increases have generally not yet been reflected in July household bills since they are based on pre-determined advance payments, which are settled periodically. Therefore, we expect the higher heating fees to be gradually reflected in the CPI data over the next few months. According to our preliminary assessment, this factor could add up to 0.2-0.3 percentage points to our inflation forecasts in subsequent months.

Temporary fuel price increase, expensive fruits in food category

According to GUS, fuel prices in July increased by 3.5% m/m (with a 6.8% y/y decline). However, due to the observed market price declines at the end of July and beginning of August, we expect fuel prices to fall in August.

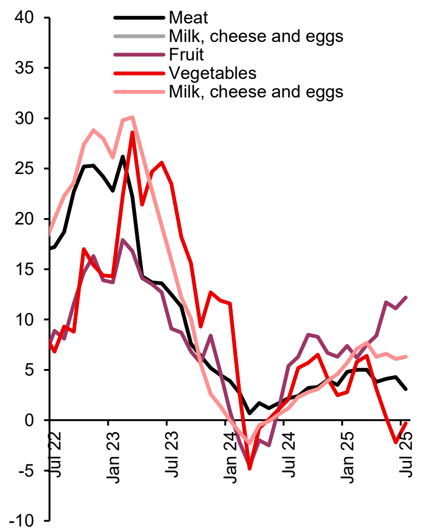
Food and non-alcoholic beverage prices increased by 4.9% y/y in July (the same as in June), with a moderate seasonal decline of 0.6% m/m. Within food category, fruit prices remained high (only -0.1% m/m), which typically decline significantly in this month. Year-on-year, this category increased by 12.2%, compared to 11.1% in June. The annual increase in dairy prices continued to exceed 6%, and meat prices decreased from 4.3% in June to 3.1% in July.

Contribution to the change in prices of energy carriers and fuels for private means of transport, pp. m/m



Source: GUS, Santander

CPI, selected categories, %y/y



Source: GUS, Santander

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